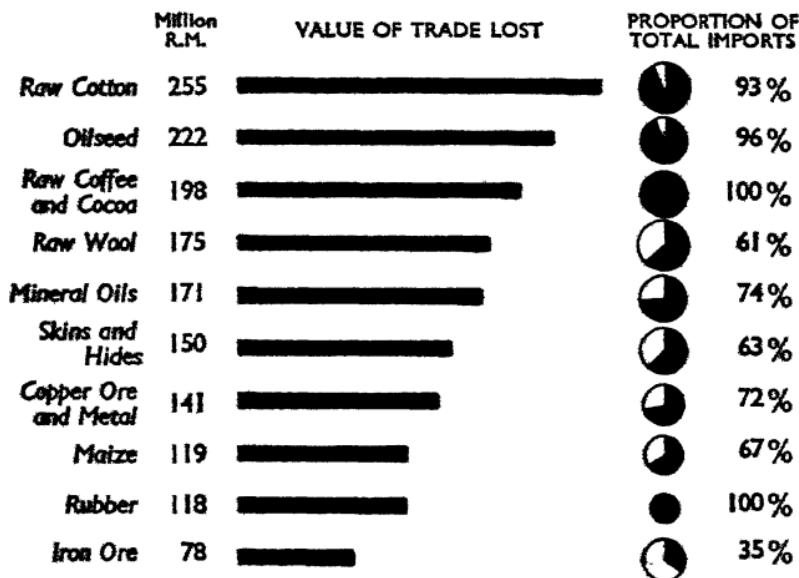


MAIN IMPORTS LIKELY TO BE CUT OFF FROM GERMANY BY BLOCKADE

Value of Germany's imports in 1937 from countries now cut off from her, and the relation which they bear to Germany's total imports in the same class.



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CAN GERMANY
STAND THE STRAIN?

BY
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~~10~~ CAN Germany stand the strain of a blockade to-day, what are the actual effects of a blockade going to be, how far can 'accessible neutrals' supply Germany's needs, what part can Russia play as a source of supplies, how can Germany pay for what she wants in war-time? These are questions to which no precise answer can be given, but Mr. Thompson gives the essential facts of the position and indicates the conclusions to be drawn from them. Mr. Thompson is an economic and statistical expert who has contributed on industrial subjects to *The Economist*, and was the author of two of the bulletins issued by the Air Raid Defence League.

The nature and effects of the Naval Blockade in the last war are dealt with in Pamphlet No. 17 (*The Blockade, 1914-19*) by Mr. W. Arnold-Forster.

The Nazi policy of 'autarky' has been described and analysed in Professor Fisher's pamphlet *Economic Self-Sufficiency* (Oxford Pamphlets on World Affairs, No. 4).

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The Effects of Blockade

BY the end of the last war Germany had been reduced to economic prostration. Food was exceedingly short. Fats were so scarce that grease was extracted from rags and household slops, and soap was made of clay and resin. The shortage of clothing was described by the German Chancellor in 1918 as even more serious than the shortage of food. Already in 1916 household utensils of copper were being requisitioned, and at various times tin cans and even organ-pipes were collected for the tin which could be recovered from them. The weapon which brought Germany to these straits was the economic warfare conducted mainly by the Royal Navy. This warfare is popularly known as a 'blockade' and will be referred to by that name, although in the language of international law it should strictly be termed not blockade but contraband control.¹

In 1939 Germany has once again to face blockade by sea. This time she has Russia for a friend, and hopes, no doubt, that the Balkan States will be

¹ See Oxford Pamphlet No. 17, *The Blockade, 1914-1919*, by W. Arnold-Forster.

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ready to supply her with as much of their produce as she may require. She has also spent great sums on Field-Marshal Göring's 'Four Year Plan', undertaken in the autumn of 1936 to make Germany independent of foreign supplies in peace or war. 'Germany's genius and inventiveness', said Hitler, 'can easily solve this problem.' Is Hitler right? Is Germany now safe from blockade? Let us see how it will affect her.

Blockade does not simply mean that the enemy's shipping is swept from the ocean. Even when that has been done (as it already has been in this war), the enemy can still import through neutral countries and in neutral shipping. If the goods in a neutral ship are obviously consigned to Germany as their final destination, it is simple for the Navy to seize them (and pay for them) so that they never reach the Germans. Germany can, however, overcome this obstacle by persuading neutral merchants to import the goods ostensibly for their own business, and then resell them to Germany once they are safely in port. In the last war a system of rationing for neutrals was set up by Great Britain in order to make such practices impossible. A central trading association was established in each country, dealing direct with the British Department of War Trade, and the neutrals were able to

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satisfy essential requirements for their own needs, but had nothing over to resell to Germany. ‘The postal control and censorship established by Great Britain in conjunction with the blockade gave an immense amount of information about the character of neutral firms. Compliance with the regulations was enforced by the publication of a “black list” containing the names of those neutrals who were known to trade with the enemy.’¹

That is what blockade meant in the last war. A huge and complicated machinery is needed to enforce it to the full, and Germany cannot be completely sealed off from overseas supplies at once. But with every week that passes the net is drawn tighter. As the organization is perfected, Germany will find herself more and more completely cut off from outside her immediately accessible neighbours in Europe.

Can Accessible Neutrals supply what the Nazis Need?

Apart from the goods which the Nazis may be able to smuggle through the ever-tightening net, their purchases must now be confined to Russia and accessible neutral neighbours of Northern, Central, and South-Eastern Europe. If they try to buy from overseas, the consignments will inevi-

¹ C. R. M. F. Cruttwell, *History of the Great War*.

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tably be detected by our contraband control, and will go to swell our supplies instead of Germany's. How great a handicap is that to the Nazis?

Before we consider the commodities, let us see where, in general, Germany buys them in peace time. The following figures give Germany's 'import surplus' with the chief raw material suppliers.

Principal Sources of Germany's 'Import Surplus' in Peace

(*Millions of Reichsmarks*)

<i>German import surplus from</i>	<i>1936</i>	<i>1937</i>
<i>British Empire:</i>		
India	20	21
Malaya	34	78
Australia	8	38
South Africa	2	30
West Africa	64	59
Canada	(expt. surplus 16)	16
Total of above Countries	—	—
	112	242
Spain	29	64
Dutch East Indies	74	66
Argentine	21	148
U.S.A.	60	73
Rumania	(export surplus 12)	50

These figures show that, directly the blockade is put on, Germany is at once cut off from all her principal 'import surplus' suppliers.

The following notes show how the supplies themselves are affected.

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Mineral Oil, Petrol, &c.

Germany's peace-time consumption is about 7 million tons a year, of which about one-third is produced at home, the rest being imported. In war, consumption rises. Estimates by German authorities have put war needs between 20 and 30 million tons a year; but such estimates are probably very much too high. It remains true, however, that while total exports from Rumania and Russia, if diverted in their entirety to Germany, could cover Germany's peace-time consumption, they would probably not meet war needs. The Polish oil-wells have only a small output. Neighbouring countries, including Russia, cannot supply Germany with enough oil for a full-scale war. Even if they could, the difficulty of transporting the oil would remain, as will be explained later. Finally, there is no hope of relief through increasing the output of oil from coal. It is estimated (*Sternberg, Germany and a Lightning War*, p. 212) that 70 to 90 million tons of coal a year would be needed to meet Germany's war requirements of petrol from home resources; and German mines are already producing all the coal they can. Stocks of oil and petrol, amounting at the highest estimate to 4 million tons, have been accumulated and will serve for a while to cover

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shortages in imports. But the stocks cannot be replaced.

Iron Ore.

The development of home-produced ores under the Four Year Plan has not kept pace with the increase in home demand. Between 1934 and 1938 home production of ore rose from 4·3 million tons to 11·1 million. Yet at the same time iron ore imports rose from 8·2 million tons to 21·9 million. The yield of iron from the low grade home ores is poor, and in terms of iron content the home-produced ore in 1938 covered little more than a quarter of total consumption. In 1914-18 Germany had the great ore-fields of Lorraine to draw on. They are now on the French side of the Maginot line. If all Germany's accessible neighbours sent all their exports to her, they would still not cover her peace-time requirements on the scale of recent years. But it remains to be seen whether Sweden (who accounts for about-two thirds of such exports) will be willing to send all her exports to Germany when a ready market exists in England. Russia, though her output of iron ore has risen greatly in recent years, needs all the ore herself, and her export is negligible. Even if Russia could increase the amount available for export, the difficulty of transporting

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the ore from the Urals to Germany would be great.

Copper and Copper Ore.

Total *net* exports of accessible countries would only cover about 15 per cent. of Germany's peace-time imports. This is a very serious loss to Germany since there is no substitute for copper as a component in certain important types of electrical and armament equipment.

Other Metals.

In addition, almost all nickel, chromite, tungsten, manganese, antimony, and mercury has to be imported, though some of the supplies come from easily accessible sources. Russia could supply all manganese requirements.

Rubber.

There is no rubber whatever available in accessible countries. 'Buna' substitute is satisfactory for some purposes, but is expensive compared with real rubber, demanding considerable coal and labour. In 1938 'buna' appears to have covered about a fifth of total consumption. More factories are said to be coming into operation, but Germany's dependence on imports of crude rubber will only be slightly diminished thereby.

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Oilseeds and Animal and Vegetable Fats.

Germany produces the greater part of her butter requirements, but has to import all oilseeds (six times the volume of butter, estimated in terms of oil content), and all whale oil (double the volume of butter). Accessible countries cannot supply oilseeds, or substitutes for them, in any significant quantities. British command of the seas also cuts off whale oil, of which the United Kingdom has in any case already secured most of the 1939 catch by buying it up last Spring.

Textile Fibres.

The *Deutsche Volkswirt* (6 January 1939) has claimed that home production of textile raw materials has risen from 17 per cent. to 42 per cent. since 1932. Foreign imports have not fallen, but the greater home demand has been met from home resources, mainly through increased output of staple fibre (which is closely akin to rayon). A certain percentage of staple fibre is compulsory in all woollen or cotton fabrics manufactured for the home market. Substitute materials are unpopular, as Field-Marshal Göring admitted in his speech of 9 September. The shortage of natural fibres cannot be relieved by any accessible neutral, including Russia. Though some accessible countries export

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both wool and cotton in small quantities, they in turn depend on imports. None has a significant exportable *surplus* to offer to Germany. In war the consumption of cotton rises sharply. During the peak of explosive production in 1914-18 Germany was using almost as much cotton for explosives as for textiles.

Skins and Hides.

There is no significant exportable surplus among accessible neutrals. Substitutes are possible for many purposes, but they usually require either textiles or rubber.

Coffee, Cocoa, Tea.

There are no supplies available. These are not essentials, and substitutes of a kind can be made. But it is a considerable hardship to be cut off from all these beverages.

Can Germany pay Neutral Suppliers?

Our examination of imports shows that, even if the Nazis could pay, their neighbours could not supply all, or nearly all, the commodities required. But consideration of Germany's export problem leads to the conclusion that, even if her neighbours could provide the goods they need, the Nazis would have difficulty in paying for them once the gold hoard (see p. 19) is used up.

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Broadly speaking, Germany's foreign trade system depends on selling in Europe more than she buys from Europe, in order to obtain foreign exchange to pay for goods from overseas, where she buys more than she sells. The European 'export surplus' covers the cost of the extra-European 'import surplus'. The following figures, taken from

(*Millions of Reichsmarks*)

	1935	1936	1937
<i>Europe:</i>			
German imports from European countries . .	2,564·0	2,521·5	3,038·6
German exports to European countries . .	3,124·5	3,372·9	4,093·7
Export surplus . .	560·5	851·4	1,055·1
<i>Overseas:</i>			
German imports from outside Europe . .	1,582·7	1,682·3	2,409·8
German exports to outside Europe . .	1,140·4	1,389·7	1,811·6
Import surplus . .	442·3	292·6	598·2

the latest official German Statistical Yearbook, show how the system works.

When we look into the detail of this European 'export surplus' we find that it is not drawn from all European countries. It depends, in fact, on German trade with a few of the leaders. The following figures (from the latest issue of the League of Nations *International Trade Statistics*) show the countries which make the big contributions.

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(*Millions of Reichsmarks*)

<i>German export surplus with</i>	<i>1936</i>	<i>1937</i>
Belgium :	73	91
France :	156	157
Great Britain and Ireland : . .	148	127
Holland :	227	252
Switzerland :	120	137

Apart from these countries, the old German trading connexions in the Far East earn her a useful, though smaller, surplus with Japan and China (19 millions with China and 51 millions with Japan in 1936; and 23 millions with China and 91 millions with Japan in 1937).

Germany's Currency Difficulties

On the day war was declared, Germany lost her export trade with Great Britain and France. That loss deprives her of any direct access to sterling, which is the leading currency of international trade, and to the franc, which, with the dollar, is one of the three great international currencies of the world. In 1939 the loss of direct access to the great world currencies is a much more serious thing for Germany than it was in 1914. Then the German mark was itself one of the great currencies. Traders anywhere in the world had been accustomed to free dealing in marks, and German credit was good. A German promise to pay was accepted in inter-

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national trade, and a trader sending goods to Germany could count on being able to convert the currency in which he was paid into any other currency which he might require. To-day all that is changed. Even in peace-time the Reichsmark was not a 'free' currency. Ever since the Nazis came to power the restrictions on the mark have been growing, and creditors of Germany have been faced more and more with the alternative of accepting payment in German goods or not being paid at all. For the German debtor has only been allowed to pay in marks, and those marks have been 'blocked' so that they can only be spent inside Germany. It is therefore a serious matter for Germany to be deprived of direct access to the international currencies.

Through trade with neutral neighbours Germany may still have indirect access to sterling or another free currency. But even there she is faced with a dilemma. The Scandinavian countries together make a substantial contribution to the German 'export surplus', though individually none yields a surplus as great as those of the leaders shown in the table on p. 13. The Scandinavian countries, in turn, have in the aggregate a big 'export surplus' with Great Britain. Consequently Germany's trade with Baltic and Scandinavian countries gives her indirect access

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to their surplus sterling, as Germany's Scandinavian customers use their surplus sterling, in effect, to pay their bills in Germany. Now, if Germany persists in her attempt to cut off the Scandinavian and Baltic countries from trade with us, she will cut off their supply of sterling and prevent their paying her in sterling exchange.

Cut off in this way from currencies which can be used in payment for goods anywhere in the world, Germany is compelled to fall back on a greater use of barter. As the goods which Germany would have exported to France and ourselves can no longer be sold for free exchange, they must as far as possible be exchanged for other goods required by Germany and obtainable from the countries to which she still has access in Northern, Central, and South-Eastern Europe and Russia. What, therefore, are the exports which Germany will now find on her hands (in the case of countries at war with her) or very much more difficult to deliver (in the case of overseas neutrals)? And what prospect has she of finding a ready demand for them in the trading area still open to her?

Germany's Lost Exports

The table on p. 16 gives, in broad terms, the answer to the first question. It shows, first, the value of Germany's principal exports (in 1937) to

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countries which are now cut off from her ships; and, secondly, the approximate proportion which those exports bear to Germany's total exports in

Exports likely to be left on Germany's hands

<i>Goods</i>	<i>Approx. value of trade affected (mill. R.M.)</i>	<i>Approx. proportion of total trade</i>
Coal and coke	187	one-third
Textiles	76	one-third
Paper and paper goods	95	one-half
Chemicals, dyes, fertilizers and drugs	342	one-half
Iron and steel semi-manufactures, &c.	126	one-third
Tools and iron ware	239	one-half
Machinery, precision instruments, optical and electrical gear	360	one-third
Vehicles and ships	101	one-third

the same class. The table is compiled from official German trade figures. It only covers the chief markets, not the minor countries for which the figures are small.

What are the prospects of Germany's being able to use those exports which are now left on her hands?

Coal and Coke.

With the coal and coke group Germany's prospects are reasonably good. Before the war the Baltic States and Denmark, Finland, and Sweden imported large quantities of British coal (some $7\frac{1}{2}$ million tons in 1938) which we may be unable to

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deliver in future in view of the ruthless policy adopted by the Germans towards neutral shipping. If, therefore, Germany has coal to export after meeting her own heavier wartime requirements she can probably find a market for it. The Saar coal-field is out of action owing to the French advance, but Polish coalfields can more than make up the loss. The coal trade is, therefore, one of the few cases in which Germany's losses will be comparatively slight.

Textiles.

Here the problem is much more difficult. British and French textile exports to the Baltic and Scandinavian countries were not large, and there is no gap waiting to be filled by Germany. In general, demand for textiles only rises when general prosperity rises. In no other circumstances is it easy to force the market to expand. Yet if Germany is to make good her loss she must increase her sales to the remaining countries by 50 per cent. Possibly Russia might provide a capacious market. But Germany could not, in any case, supply it because (as we shall see later) she will be very short indeed of cotton and wool and cannot get significant supplies of them from any accessible country. Only a small opening would exist for rayon and substitute fabrics.

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Paper.

There is not much opening here. Germany's neighbours are either self-sufficient in paper or already get a large part of their supply from Germany.

Chemicals.

Germany's own requirements will rise in wartime, leaving a smaller surplus available for export, so that loss of foreign markets would have to be faced in any case. A market might be developed in Russia, but some big cut in this export seems inevitable.

Iron and Steel and Tools and Ironware.

There are two serious obstacles to replacing lost exports here. First, Germany's own consumption of iron and steel must rise in wartime, leaving less over for export. And, secondly, Germany is likely to be distinctly short of iron ore (as will appear later), and will not be anxious to send iron and steel goods out of the country, once convinced that she has to fight a long war.

Machinery, Vehicles, and Ships.

Here the iron-ore shortage is not so serious an obstacle, as raw materials only represent a rather small part of the finished value of machinery,

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vehicles, and ships. But engineering craftsmen are urgently needed for war industries, and as the war develops it may be difficult to spare them for export jobs. If they can be spared, Russia might take a large amount of machinery on suitable terms.

It looks, therefore, as if Germany could hope to make a certain increase in the amount of goods which she exports to accessible neutrals, but could not hope nearly to replace the markets lost to her. The immediate effect of war and blockade is already to make the Nazis poorer in means of paying for the goods they want. Even if accessible neutrals could supply all the raw materials which Germany used to import from overseas (and, as we shall see, they cannot), the Nazis would not be able to find acceptable exports with which to pay the bill.

German Gold

For a time a dwindling export trade may not worry the Nazis. Over the last five or six years, while pleading poverty whenever creditors have pressed it to meet its debts, the German Government is known to have been gathering a secret war reserve of gold. The published gold holding of the Reichsbank is very small—between £6 and £7 millions at the outbreak of the war—but the plunder of Austria and Czechoslovakia included at least a large

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part of the gold belonging to the central banks of each, and there is believed to be a secret hoard in the old Reich apart from the plunder. How far these reserves were drawn on before the war is not known. But it would be rash to assume that Germany has no gold now beyond the small amount shown in the Reichsbank statement, although the total hoard can only be a small fraction of the reserves of London and Paris. If exports are too small to pay for all that the Nazis need, gold will no doubt be found to make up the balance—for as long as the hoard lasts. In addition, Hitler may receive Russian gold as the price of selling to Stalin the interests of Germans in the Baltic and the Balkans.

Russia as a Source of Supplies

In examining above (pp. 5 to 11) how far accessible neutrals can supply what the Nazis need, Russia has been treated as accessible to Germany. But, even so, serious shortages remain. Now Russia if she is to make good those shortages—or such of them as she is in a position to supply—must make big changes in her own economic arrangements. There are great transport problems to be overcome, especially where iron ore and oil are concerned. Assuming that transport problems can be overcome (which is a very big assumption for iron ore and

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oil) Russians would have either to increase their output or to decrease their own consumption if any large quantities were to remain over for export to Germany. For, despite her great size, Russia only exports on a very modest scale. In total value of her export trade, for example, she now ranks behind Denmark, and she does not compare with any of the great exporting British Dominions or Colonies. The figures, in gold dollars as calculated by the League of Nations Economic Bulletin, are shown in the following table. They refer to the year 1937, as Russia has not yet returned her 1938 figure:

Monthly Average

1937 Exports in Gold Dollars

Russia	16,180,000
Denmark	17,040,000
Canada	55,370,000
South Africa	29,540,000
Australia	28,620,000
India	37,190,000
British Malaya	25,650,000

This restriction of Russia's exports is not due to lack of foreign markets, but is a direct result of Russia's own internal development which is absorbing all the raw materials that the Russians can turn out. Last March, at the Eighteenth Congress of the Communist Party, Mikoyan, Commissar for Foreign Trade, said:

'We are not exporting butter or eggs or bacon or fowls,

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since we are increasing domestic consumption, and every surplus goes to our warehouses, as well as those excellent goods which we formerly used to export. Despite the large increase in the production of benzine, kerosene, iron ore, and certain other goods, their export has been either curtailed or altogether discontinued. They, too, are kept for home consumption.'

Benzine and iron ore are two of the products which Germany will most urgently require. Are the Soviets prepared now to reverse their policy?

Presumably they would only do so if a really profitable market were to be opened to them, not a customer who would soon find the greatest difficulty in paying his bills. Admittedly, Russia was exporting much more to Germany in the early thirties than in recent years—in the exchange of letters which accompanied the Russo-German Agreement of 29 September 1939 it was stated that: 'Both parties will shape their economic policies in such a way that the German and Soviet trade turnover will again match the highest turnover of past years (over 1,000,000,000 marks in 1931). Both countries will take the necessary measures without delay, and negotiations shall be begun and concluded as soon as possible.' But what did Russia export to Germany in those years of high trade turnover? The following figures show

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the biggest items in Russia's exports to Germany in 1930 (the highest year for Russian exports to Germany):

		<i>Tons</i>	<i>Million R.M.</i>
Barley	.	409,292	48·55
Hides and skins	.	6,728	68·67
Meat offals	.	7,826	19·02
Wood and timber	.	1,302,185	70·52
Mineral oil	.	372,352	51·31
Furs	.	626	22·32

Of these goods, the biggest class, wood and timber, would not be of particular significance against the blockade as Germany already has access to adequate supplies, even without Russia. The same applies to barley. Russian furs are not war needs. The two classes which would be relevant to Germany's present requirements are hides and skins and mineral oil. But:

Hides and Skins.

Russia is now a net importer of hides and skins. Unless she were willing to slaughter her stock of cattle for Germany's benefit, or to go without leather herself, she would find it difficult to increase this export substantially. The same, of course, applies to meat offals.

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Mineral Oil.

Since 1930 Russian oil output has risen by over 50 per cent. But her own requirements have risen yet faster (owing to mechanization of agriculture, the army, &c.), and her exports have consequently fallen far below the 1930 level. In any case the German import of Russian oil in 1930 was only a small part of Germany's total import of oil and oil products, and a recovery of the 1930 import level would make little difference to Germany's oil problem. If Germany's war needs of oil are to be met a vast increase in Russian oil exports will be required. There remains the question of how this great volume of oil would be transported.

Iron ore.

Iron ore is not shown in the table above because, so far from being a big item, exports to Germany in 1931 only amounted to 39,031 tons valued at 1.68 million RM.

Transport Difficulties

But even if Russia is able and willing to increase her exports of what Germany wants, there remains the serious difficulty of transport. The only really satisfactory route for heavy traffic between Russia and Germany is the Baltic. But the Baltic ports are at the opposite corner of European Russia from the

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Russian iron ore and oil fields. Provided that the Balkan countries offered no objection, the Danube would be a practicable route—assuming that the Black Sea was safe. But it is at present impossible to take oil tankers up the Danube the whole way from the Black Sea to Germany. Either constructional work must be carried out on the river bed or complicated transhipment arrangements would have to be made. If a big iron ore traffic is to be carried as well as the oil, a great new fleet of river craft will be needed.

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The railways are even less likely to solve the transport problem. Immense distances are involved; the German gauge is different from the Russian; and both Germany and Russia are suffering from a shortage of goods wagons—the goods wagon stock of all Russian and German railways combined is about the same as the total goods wagon stock of Great Britain alone, i.e. 1,236,050 in Germany and Russia combined on December 31, 1937 (latest return available), against 1,296,838 (including private wagons) on the British railways. It has been calculated (*Economist*, 2 Sept. 1937) that if Russia could set aside as much as one-tenth of the total wagon stock exclusively for the needs of German trade the total annual carrying capacity over the very great distances would be

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less than Germany's annual peace-time imports of iron ore alone. As far as the Russian railways are concerned, the conclusion reached by Colonel Hesse may be quoted from a recent issue of the *Kriegswirtschaftliche Jahresberichte*, issued by the German War Ministry:

'A comparison of the Russian railway system with that of other countries shows how far it lags behind them. In view of the fact that Russia must now be counted as one of the mass-producing countries, the insufficiency of its railway system poses an economic problem which it will take years to solve. In a war, when mass-transportation has to be conducted in a short space of time, this problem may prove of decisive importance. It may be said without exaggeration that for many years to come the state of the Russian railways will remain the weakest point in the military-economic capacity of the Soviet Union.'

German Stocks

It was part of the Four Year Plan to build up great stocks of such commodities as Germany cannot produce at home or obtain from near neighbours. The amounts accumulated have been kept secret and, though calculations made in the London Commodity markets suggest that the resources of iron, copper, and petroleum are not more than would cover six months' consumption, we should face the probability that these stocks, used to supple-

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ment current supplies, may considerably prolong Germany's power of resistance. To speculate on how long they could prolong it would be unprofitable. But the reserves can only last a limited time. As they become exhausted, one section after another of Germany's productive machine must be brought to a standstill. Bottle-necks will be created and the cessation of one activity will hold up others where no shortage of supplies has yet been felt. That is Germany's weakness. For a time she can maintain production to the full. But the higher the output now the more quickly will stocks run out, and then the 'seizing up' must begin.

When we are considering stocks, however, we must not think only of hoards of this or that commodity. Besides 'visible' stocks, any nation, or indeed any family, has yet more important 'invisible' stocks. For example, if a man has a brand new pair of boots, his boot 'stock' is obviously greater than that of a man whose boots are all in holes. There Germany's position is weak. For several years past the Nazis have severely limited the amount of maintenance work which private or non-warlike industry might do in keeping its property and plant in good order. The effort instead has been directed to preparation for war. As a result, the national estate has been allowed to deteriorate. Even the State

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Railway has suffered and has been unable to keep pace with the increasing demands made on it. As the Weekly Report of the Institut für Konjunkturforschung admitted on 14 June last, 'the increase in transportation and the rising frequency of special problems has led temporarily to a great overburdening which had unfavourable effects on the operation of the railroad'. Similar complaints have been heard from leading shipowners and industrialists. The 'invisible stock' represented by a well-maintained national estate has already been heavily drawn on by the Nazis.

Coercion of Neutrals

It now begins to look as though the Nazis may try to use the time that remains to them to organize a 'Continental System' by which they may direct and monopolize their neighbours' trade 'from the Baltic to the Mediterranean'. The redoubtable Dr. Schacht has been put to work on the scheme, the attractions of which will shortly be urged on the neighbour States. It is referred to as a 'Continental Blockade of Britain', and is said to be devised to enable continental countries which are cut off from England by the war at sea to dispose of their exports profitably elsewhere. In particular, Germany will gladly accept all such surplus exports, partly for

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her own use and partly for redistribution to other countries. The Nazis, in fact, aim to compel their neutral neighbours to centralize their entire external trade in German hands.

Such kindly consideration for the trade of neighbour States is not new—though it has not been openly pressed on Scandinavian countries before. In a speech at Königsberg on 21 August 1938 Dr. Funk outlined a scheme in which Germany would be the sole purchaser of Balkan products in bulk, absorbing for herself as much as she required and reselling the surplus on world markets. The free exchange obtained for the surplus would be used by Germany to buy such products as the Balkan countries could not supply, and Germany would be the sole supplier of Balkan needs. There has not, however, been any great enthusiasm on the part of Balkan States for a project which would have completely undermined their elementary freedom to sell their own produce where they wanted and to buy whatever they wished with the proceeds. It is questionable whether the scheme will be found any more attractive to neutrals now that Germany's ability to market even her own surplus has been crippled by war pressure. Will the Nazis, therefore, cease to be content with the normal processes of exchange and attempt to extort goods from

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neutral countries by force? The submarine onslaught on neutral shipping is beginning to suggest that they may.

Forcible seizure of goods, however, gives little promise of solving Germany's real problem. Indeed, it is more likely to aggravate it. For, particularly where the products of peasant labour are concerned, any surplus of goods which a country has available for export under normal conditions of trade tends to disappear when compulsion is substituted for free purchase. The official German 'Felddienstordnung' specifically advises that when everything that can be removed has already been confiscated, payments in cash, or promises to pay in cash, will invariably produce fresh supplies. In the industrial world bad work and sabotage are the counterparts of peasant hoarding. Moreover, forcible extraction of produce from a coerced population requires very large numbers of troops. Even after the Treaty of Brest-Litovsk by which Russia surrendered to Germany in 1918, the rich lands of the Ukraine could only be forced to yield up a reasonable surplus by the employment of armies of soldiers and police. 'Considerable forces were needed to squeeze supplies of food out of the hoarding peasants and to administer and police the vast areas which they (the Germans) had taken under

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control. Even at the time of their bitterest need in France, in the following October, forty divisions . . . were detained in the east.¹

It is, in fact, inescapable that neither by ordinary commercial methods nor by coercion can Germany hope to evade the slow but sure pressure of naval blockade. In the corner of the world which remains open to Germany there simply do not exist some of the materials essential to the conduct of war and indeed to the maintenance of civil life. And as the war progresses it will become harder and harder for Germany to pay for the supplies that do exist there. That does not mean that the task of the Allies is easy. Though Germany cannot sustain a long war, the Nazis have built up a machine which can, while it lasts, strike hard in an effort to break our stranglehold. But it *is* a stranglehold. And both the Nazis and we know it.

¹ Cruttwell, *History of the Great War*, p. 484.